

Message Text

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PAGE 01 SEOUL 06104 210940Z

ACTION EA-09

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-07

L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 IGA-02 OMB-01 TRSE-00 ACDA-07 IO-13

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P R 210817Z JUL 77

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC PRIORITY 5251

INFO CINCPAC

C O N F I D E N T I A L SEOUL 6104

E.O. 11652: GDS

TAGS: MARR, MASS, KS, US

SUBJECT: OVERALL DEFENSE COSTS

1. DEPUTY PRIME MINISTER NAM DUK WOO JULY 20 DISCUSSED WITH AMBASSADOR PROBLEMS OF FUNDING EXPANDED DEFENSE COSTS RESULTING FROM TROOP WITHDRAWAL. HE SAID THAT IN FY 1976, GROSS DEFENSE COSTS ACTUALLY EXCEEDED 7 PERCENT AND WERE ABOUT 7.6 PERCENT OF GROSS NATIONAL PRODUCT. IN ADDITION TO DEFENSE MINISTRY BUDGET, OVERALL DEFENSE COSTS INCLUDE EXPENDITURES ELSEWHERE FOR RESERVES, REPAYMENT OF DEFENSE RELATED LOANS AND MISCELLANEOUS MINDEF EXPENDITURES SEPARATELY HANDLED. HE EXPECTS THAT OVERALL DEFENSE BUDGET IN FY 77 WILL BE ABOUT THE SAME BUT COULD GO OVER 8 PERCENT OR MORE IN 1978.

2. NAM SAID THAT HE IS CURRENTLY WORKING ON FY 78 BUDGET AND IS MUCH CONCERNED BY INCREASE IN DEFENSE COSTS TO POINT WHERE HE BELIEVES THAT AN INCREASE IN DEFENSE TAX MAY BE FISCALLY NECESSARY. HOWEVER, INCREASED DEFENSE TAX WOULD BE POLITICALLY VERY DIFFICULT. ON OTHER HAND, WITHOUT NEW TAX REVENUES INVESTMENT IN ECONOMIC DEVELOPMENT AND INFRASTRUCTURE WOULD BE INSUFFICIENT.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 SEOUL 06104 210940Z

3. ALREADY IN 1976 THE INCREASE IN ECONOMIC DEVELOPMENT INVESTMENT WAS ONLY 18 PERCENT AS AGAINST PREVIOUS YEAR'S FIGURES OF 25 - 30 PERCENT. NAM'S CONCERN IS THAT THE DECLINE IN ECONOMIC DEVELOPMENT INVESTMENT WOULD AFFECT THE ECONOMY AND AVAILABILITY OF FOREIGN CREDIT. ALREADY THE PROSPECT OF HIGHER DEFENSE COSTS HAS LED HIM TO BE MORE CAUTIOUS IN HIS

ECONOMIC JUDGMENTS AND POLICIES, INCLUDING TRADE LIBERALIZATION. ADDITIONALLY HIS TARGET IS A 7 PERCENT DEBT RESERVE RATIO, WHICH IS LOWER THAN ECONOMICALLY NECESSARY, BUT ESTABLISHED DUE TO SECURITY CONSIDERATIONS AND CONCERNS ABOUT TROOP WITHDRAWAL.

4. NAM IS LESS CONCERNED ABOUT FOREIGN EXCHANGE PROBLEMS. HE EXPECTS FOREIGN EXCHANGE EXPENDITURES THIS YEAR WILL RUN \$500 MILLION OR PERHPAS A BIT MORE, BUT CURRENT FOREIGN EXCHANGE RESERVES WILL PERMIT THIS. NAM HAS PROMISED TO GIVE US MORE SPECIFIC FIGURES ON OVERALL DEFENSE COSTS WHICH WE WILL FORWARD WHEN RECEIVED.
SNEIDER

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Message Attributes

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Disposition Approved on Date:
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